

ORIGINAL
COMMISSIONERS
BOB STUMP, Chairman
GARY PIERCE
BRENDA BURNS
BOB BURNS
SUSAN BITTER SMITH

OPEN MEETING ITEM



ARIZONA CORPORATION COMMISSION



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DATE: JANUARY 10, 2013

DOCKET NO.: W-20475A-12-0143

TO ALL PARTIES:

ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

Enclosed please find the recommendation of Administrative Law Judge Sarah N. Harpring. The recommendation has been filed in the form of an Order on:

WATCO, INC.
(RATES)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by 4:00 p.m. on or before:

JANUARY 22, 2013

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Open Meeting to be held on:

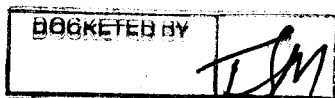
JANUARY 30, 2013 AND JANUARY 31, 2013

For more information, you may contact Docket Control at (602) 542-3477 or the Hearing Division at (602) 542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.

Arizona Corporation Commission

DOCKETED

JAN 10 2013



Jodi A. Jerich
JODI JERICH
EXECUTIVE DIRECTOR

1200 WEST WASHINGTON STREET; PHOENIX, ARIZONA 85007-2927 / 400 WEST CONGRESS STREET; TUCSON, ARIZONA 85701-1347

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This document is available in alternative formats by contacting Shaylin Bernal, ADA Coordinator, voice phone number 602-542-3931, E-mail SABernal@azcc.gov.

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 **COMMISSIONERS**

3 BOB STUMP - Chairman
4 GARY PIERCE
5 BRENDIA BURNS
6 BOB BURNS
7 SUSAN BITTER SMITH

8 IN THE MATTER OF THE APPLICATION OF
9 WATCO, INC. FOR APPROVAL OF A RATE
10 INCREASE.

DOCKET NO. W-20475A-12-0143

DECISION NO. _____

9 **ORDER**

10 Open Meeting
11 January 30 and 31, 2013
12 Phoenix, Arizona

12 **BY THE COMMISSION:**

13 This case involves a permanent rate case application filed with the Arizona Corporation
14 Commission ("Commission") by Watco, Inc., a Class D water utility providing service to
15 approximately 296 metered customers in an area north of Show Low in Navajo County.

16 * * * * *

17 Having considered the entire record herein and being fully advised in the premises, the
18 Commission finds, concludes, and orders that:

19 **FINDINGS OF FACT**

20 **Background**

21 1. Watco, Inc. ("Watco") is a for-profit Arizona "S" corporation providing water utility
22 service to approximately 296 metered customers in a service area including two distinct Public Water
23 systems, known as Bourdon Ranch Estates¹ ("Bourdon Ranch") and Canyon Vista.² Together, the
24 two unconnected systems cover approximately 3.2 square miles in Navajo County. Bourdon Ranch
25 is located more than six miles northeast of Show Low, and Canyon Vista is located more than six

26 ¹ At the time of Watco's last rate case, Watco was serving both Bourdon Ranch and another separate public water
27 system known as Silver Lakes Estates ("Silver Lakes"). Bourdon Ranch and Silver Lakes were interconnected in 2009
and merged into the current Bourdon Ranch in 2010.

28 ² Watco received an extension of its Certificate of Convenience and Necessity ("CC&N") to serve the area including
Canyon Vista in Decision No. 68567 (April 12, 2006).

1 miles northwest of Bourdon Ranch.

2 2. Watco operates under a CC&N originally granted to Silverwell Service Corporation
3 (“SSC”) in Decision No. 38013 (September 7, 1965). Mark Grapp (“Mr. Grapp”), the current
4 president and an owner of Watco, began managing SSC in mid-1992, with the intent of ultimately
5 purchasing the utility.³ Mr. Grapp purchased the assets of SSC in 1996 and began operating the
6 utility as SSC dba Watco. Mr. Grapp then incorporated Watco in March 2003. In Decision No.
7 69391 (March 22, 2007), the Commission approved the sale of SSC’s assets and the transfer of SSC’s
8 CC&N to Watco.

9 3. Watco is owned by Mr. Grapp and his wife, Barbara. Mr. Grapp also owns a
10 management company (Cedar Grove Water Management Company); three other Arizona public
11 service corporations (A. Petersen Water Company; Cedar Grove Water, Inc.; and Serviceberry Water
12 Company); and a payroll company (Four Star Land Development (“Four Star”)). All but Four Star
13 share the same office space; they also share employees, transportation, office supplies, utilities,
14 computers, telephone, and other miscellaneous services. In addition, Mr. Grapp’s officer salary is
15 allocated among the four public service corporations. According to the rate application, Watco does
16 not share any assets with the three other public service corporations.

17 4. Watco’s Vice President of Operations is Thomas Grapp. During the TY, Watco paid
18 salaries/wages to Mark Grapp, Thomas Grapp, and Bryan Mullins.

19 5. Four Star processes payroll for Watco and the other three public service corporations.
20 Watco states that no affiliate profit is included in the billings to any of the public service
21 corporations.

22 6. Watco’s current rates and charges were approved in Decision No. 70055 (December 4,
23 2007), in which Watco also received approval to obtain a \$600,000 loan from the Arizona Water
24 Infrastructure Finance Authority (“WIFA”), which funds were to be used for specified system
25 improvements.

26 7. Watco’s Bourdon Ranch water system includes two active wells producing a
27

28 ³ By this time, SSC’s corporate status had been revoked due to its failure to file annual reports with the Commission’s Corporations Division.

1 combined 89 gallons per minute ("GPM"); two storage tanks with a combined capacity of 125,000
2 gallons; and a distribution system serving approximately 290 5/8" x 3/4" meters and one 2" haul water
3 meter during the test year ending December 31, 2011 ("TY"). The Commission's Utilities Division
4 ("Staff") determined that the Bourdon Ranch water system has adequate production capacity and
5 storage capacity to serve the existing customer base and reasonable growth. Bourdon Ranch has not
6 experienced growth in the past few years.

7 8. Watco's Canyon Vista water system includes one active well producing 60 GPM; one
8 storage tank with a capacity of 120,000 gallons; and a distribution system serving approximately five
9 5/8" x 3/4" meters during the TY. Staff determined that the Canyon Vista water system has adequate
10 production capacity and storage capacity to serve the existing customer base and reasonable growth.
11 Canyon Vista has not experienced growth in the past few years. Canyon Vista was created to serve
12 both the Canyon Vista Estates development and the Cedar Mesa Ridge development, but currently
13 has no service connections in Cedar Mesa Ridge.

14 9. During the TY, median monthly water usage for the 5/8" x 3/4"-meter customers served
15 by Watco was 3,383 gallons, and average monthly water usage for those customers was 4,851
16 gallons.

17 10. During the TY, Watco's Bourdon Ranch system pumped 17,183,700 gallons and sold
18 15,440,520 gallons, reflecting water loss of approximately 10.14 percent, which Staff characterized
19 as falling right at the recommended threshold for an acceptable amount of non-account water.
20 Accurate TY water use data is not available for Watco's Canyon Vista system because its well meter
21 was inoperable during the TY, although Watco has reported that it was replaced on April 3, 2012.

22 11. The Commission received no complaints regarding Watco in 2009 and 2010 and four
23 complaints regarding Watco in 2011. For the period of January 1 to August 29, 2012, the
24 Commission received five complaints and 32 opinions opposing the proposed rate increase.

25 12. The Arizona Department of Environmental Quality ("ADEQ") has reported that
26 Watco's Bourdon Ranch water system is in compliance with ADEQ requirements and is delivering
27 water meeting the water quality standards required by 40 C.F.R. 141 and Arizona Administrative
28 Code ("A.A.C.") Title 18, Chapter 4. Because the Canyon Vista water system has fewer than 15

1 connections, it does not meet the definition for a community water system and is not yet subject to
2 ADEQ compliance monitoring.

3 13. Watco's systems are not located in an Active Management Area ("AMA"). The
4 Arizona Department of Water Resources ("ADWR") has reported that Watco's water systems are in
5 compliance with ADWR requirements governing water providers and/or community water systems.

6 14. Watco has both a Curtailment Plan Tariff and a Backflow Prevention Tariff on file
7 with the Commission.

8 15. Watco is current in its property and sales tax payments.

9 16. Watco is current on its Utilities Division and Corporations Division annual reports and
10 is in good standing with the Commission's Corporations Division.

11 17. Staff's Compliance database shows no delinquent compliance items for Watco.
12 However, Staff reported that Watco has not complied with the Commission directive in Decision No.
13 70055 for Watco to adopt Staff's recommended depreciation rates.

14 **Procedural History**

15 18. On April 13, 2012, Watco filed with the Commission a permanent rate case
16 application reporting TY operating revenues of \$143,435 and requesting an increase in revenues of
17 \$105,846, or approximately 74 percent. In its application, Watco included certification that public
18 notice of its application had been mailed to its customers on April 12, 2012.

19 19. Between April 19, 2012, and May 1, 2012, the Commission received comments
20 representing approximately 27 Watco customer accounts, all expressing opposition to Watco's
21 requested rate increase.

22 20. On May 14, 2012, Staff issued a Letter of Sufficiency, stating that Watco's application
23 had met the sufficiency requirements outlined in Arizona Administrative Code R14-2-103(B)(7) and
24 classifying Watco as a Class D utility.

25 21. On June 27, 2012, Staff filed a Joint Request for an Extension of Time, stating that
26 Staff's site visit had been postponed due to schedule conflicts and personal commitments and
27 requesting a 14-day extension of time to file a Staff Report, to which Staff stated Watco had agreed.

28 22. On June 28, 2012, a Procedural Order was issued granting a 14-day extension both for

1 the Staff Report filing deadline and the Commission's time frame for a decision in this matter.

2 23. On July 18, 2012, Watco filed a letter to clarify information regarding dates included
3 in Staff's Joint Request for an Extension of Time.

4 24. On August 2, 2012, Staff filed Staff's Request for an Extension of Time, stating that a
5 three-week extension of time was needed for filing the Staff Report due to delay in receiving
6 responses to data requests and the scheduled absence of the Staff member primarily responsible for
7 preparing the Staff Report. Staff stated that Watco had no objection.

8 25. On August 3, 2012, a Procedural Order was issued granting Staff's requested
9 extension and extending the Commission's time frame for a decision in this matter by 21 days.

10 26. On August 15, 2012, Watco filed responses to Staff's Third Set of Data Requests. In
11 its responses, Watco noted corrections to shared service expense allocations.

12 27. On August 29, 2012, Watco filed a letter, with supporting documentation, regarding
13 the speed with which Watco had responded to Staff's data requests.

14 28. On September 4, 2012, Staff issued its Staff Report, recommending approval of Staff's
15 proposed rates and charges.

16 29. On September 17, 2012, Watco filed a letter responding to the Staff Report, in which
17 Watco identified two errors in the Staff Report that Watco asserted should be corrected in the
18 recommended rates—namely, the TY customer count for 2" meters and the allocated TY expense for
19 Thomas Grapp's salary.

20 30. On November 1, 2012, Staff filed a Supplemental Staff Report stating that the
21 customer count error had been corrected, with no impact on Staff's recommended rates, and that the
22 salary expense error had also been corrected, with numerous impacts to Staff's original
23 recommendations. Staff recommended approval of the rates and charges in the Supplemental Staff
24 Report.

25 31. On November 5, 2012, a Procedural Order was issued extending the Commission's
26 time frame to issue a decision in this matter by 58 days due to the Supplemental Staff Report, for
27 which comments once again would be accepted.

28 32. On November 14, 2012, Watco filed a letter thanking Staff for responding to Watco's

1 comments with the Supplemental Staff Report and consenting to accept the rates as proposed in the
2 Supplemental Staff Report.

3 **Ratemaking**

4 33. Watco waived use of reconstruction cost new to determine its fair value rate base
5 ("FVRB") and provided data supporting an original cost rate base ("OCRB") of \$243,073.

6 34. Staff adjusted Watco's OCRB figure to (\$71,688) through a \$735,689 overall decrease
7 in plant in service made primarily to exclude from rate base plant funded by Advances in Aid of
8 Construction ("AIAC") and determined by Staff's Engineer not to be used and useful during the TY;
9 a \$332,127 increase in accumulated depreciation made to reflect Staff's calculation of accumulated
10 depreciation expense based on Staff's adjusted plant in service; and through allowance of \$17,269 in
11 cash working capital, calculated using the formula method. We find that Staff's adjustments to rate
12 base are reasonable and appropriate, and we adopt Staff's recommended OCRB and find that Watco's
13 FVRB is equivalent to Staff's recommended OCRB and is (\$71,668).

14 35. Watco reported TY total operating revenue of \$143,435. Staff increased Watco's TY
15 other water revenue by \$25 to be consistent with the supporting documentation provided by Watco,
16 resulting in TY total operating revenue of \$143,460. We find that Staff's adjustment to TY revenue
17 is reasonable and appropriate, and we adopt Staff's adjusted TY revenue figure of \$143,460.

18 36. Watco proposed adjusted TY total operating expenses of \$224,783, which included
19 proposed pro forma adjustments to TY expenses for salaries and wages, office supplies, outside
20 services, health and life insurance, and rate case expense. With its pro forma adjustments, Watco
21 asserted a TY operating loss of \$81,348. The operating expenses shared by multiple companies
22 owned by Mr. Grapp were allocated to the respective companies, including Watco, based upon a
23 single allocation factor, namely the number of customers.

24 37. According to Staff, the primary goal of cost allocation is to prevent or limit, to the
25 extent possible, cross-subsidization of one company's customers by another company's customers.
26 Staff cited the National Association of Regulatory Utility Commissioners ("NARUC") Guidelines for
27 Cost Allocations and Affiliate Transactions as providing that in cost allocation, (1) the primary cost
28 driver for common costs, or a relevant proxy, should be identified and used to allocate costs; (2) costs

1 should, to the extent practicable, be collected and classified on a direct basis for each asset, service,
2 or product provided; and (3) indirect costs of each business unit, including allocated costs of shared
3 services, should be spread to the related services or products using relevant cost allocators. Staff's
4 four-factor allocation methodology uses the following equally weighted factors to calculate the
5 general allocation percentage: (1) direct labor hours of employees, (2) direct operating expense, (3)
6 number of customers, and (4) net plant. Staff's calculation was included on page 10 of Schedule
7 BCA-3 of the Staff Report, which is attached hereto and incorporated herein as Exhibit A. Staff
8 asserted that this four-factor allocation methodology produces a more equitable allocation of shared
9 indirect expenses, consistent with the NARUC Guidelines. Staff further asserted that the single
10 factor allocation method used by Watco is inappropriate because it always results in the utility with
11 the largest number of customers paying the largest amount of allocated cost, regardless of any direct
12 causal relationship between the number of customers and that cost.

13 38. Staff made a number of adjustments to Watco's TY total operating expenses to make
14 them consistent with Staff's recommended four-factor allocation methodology for shared expenses.
15 These included adjustments to the expenses for salaries and wages, repairs and maintenance, office
16 supplies, outside services, rents, transportation, and general liability insurance. In addition, Staff
17 adjusted Watco's TY water testing expense to conform to the water testing expense recommended by
18 Staff's Engineer, decreased rate case expense to reflect a reasonable and normalized amount to be
19 amortized over three years, decreased taxes other than income to remove sales taxes paid by
20 customers and thus not an expense to Watco, and increased property tax expense to be consistent with
21 the Arizona Department of Revenue's property tax method. Staff's adjustments brought Watco's TY
22 total operating expenses to \$197,086. We find that Staff's four-factor allocation methodology and
23 Staff's adjustments to Watco's TY operating expenses are reasonable and appropriate, and we adopt
24 them. As a result, we find that Watco had a TY operating loss of \$53,626.

25 39. In its application, Watco proposed an increase in annual revenues of \$105,846. Staff
26 determined that Watco's proposed rates and charges would result in annual total operating revenue of
27 \$250,686. Using the adjusted TY operating expenses adopted herein, this would result in operating
28 income of \$53,600 and an operating margin of 21.38 percent.

40. Staff's proposed rates and charges would result in annual total operating revenue of \$223,264. Using Staff's projected operating expenses of \$199,633,⁴ this would result in operating income of \$23,631 and an operating margin of 10.58 percent. Staff asserted that its recommended revenue requirement of \$223,264 would be sufficient to cover Watco's operating, maintenance, and capital costs.

41. Although we have determined and considered Watco's FVRB, its negative FVRB makes calculation of a rate of return meaningless. For this reason, we have also considered Watco's operating margin for the purpose of establishing just and reasonable rates and charges herein.

42. Watco's current and proposed rates and charges, and the rates and charges recommended by Staff, are as follows:

	<u>Present Rates</u>	<u>Watco Proposed</u>	<u>Staff Recommended</u>
<u>MONTHLY MINIMUM CHARGES:</u>			
5/8" x 3/4" Meter	\$ 22.00	\$ 38.28	\$ 26.00
3/4" Meter	33.26	57.87	26.00
1" Meter	60.48	105.24	65.00
1 1/2" Meter	111.89	194.69	130.00
2" Meter	128.00	222.72	208.00
3" Meter	330.00	574.20	416.00
4" Meter	550.00	957.00	650.00
6" Meter	1,100.00	1,914.00	1,300.00

COMMODITY RATES (Per 1,000 Gallons):

All Meter Sizes

1 to 3,000 Gallons	\$3.00	\$5.22
3,001 to 10,000 Gallons	4.00	6.96
Over 10,000 Gallons	5.00	8.70

5/8" x 3/4" Meters

1 to 3,000 Gallons	\$ 4.73
3,001 to 8,000 Gallons	7.33
Over 8,000 Gallons	13.85

All Other Meter Sizes

1 to 8,000 Gallons	\$ 7.33
Over 8,000 Gallons	13.85

Bulk Water	\$5.00	\$8.70	\$13.85
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⁴ This includes an increase in property and other taxes.

SERVICE LINE AND METER INSTALLATION CHARGES:

(Refundable pursuant to A.A.C. R14-2-405)

Present, Watco Proposed, & Staff Recommended

	<u>Service</u>	<u>Meter*</u>	<u>Total</u>
5/8" x 3/4" Meter	\$ 0.00	\$ 0.00	\$ 0.00
3/4" Meter	220.00	100.00	320.00
1" Meter	245.00	125.00	370.00
1 1/2" Meter	275.00	270.00	545.00
2" Meter	300.00	450.00	750.00
3" Meter	340.00	640.00	980.00
4" Meter	600.00	1,220.00	1,820.00
6" Meter	1,060.00	2,860.00	3,920.00

* Note: Meter Charge includes meter box or vault.

	<u>Present Rates</u>	<u>Watco Proposed</u>	<u>Staff Recommended</u>
<u>SERVICE CHARGES:</u>			
Establishment	\$25.00	\$25.00	\$25.00
Establishment (After Hours)	\$40.00	N/A	N/A
Reconnection (Delinquent)	\$25.00	\$25.00	\$25.00
Reconnection (Delinquent, After Hours)	\$37.50	N/A	N/A
After Hours Service Charge	N/A	\$25.00	\$25.00
Meter Test (If Correct)	\$35.00	\$50.00	\$35.00
Deposit	\$45.00	\$45.00	\$45.00
Deposit Interest (Per Year)	*	*	*
Re-Establishment (Within 12 Months)	**	**	**
NSF Check	\$20.00	\$30.00	\$30.00
Deferred Payment (Per Month)	1.50%	1.50%	1.50%
Meter Re-Read (If Correct)	\$20.00	\$25.00	\$25.00
Late Fee (Per Month)	1.50%	1.50%	1.50%

MONTHLY SERVICE CHARGE FOR FIRE SPRINKLERS:

All Meter Sizes	***	N/A	****
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* Per Commission Rule A.A.C. R14-2-403(B)

** Number of months off system times the monthly minimum per Commission rule A.A.C. R14-2-403(D)

*** 1% of monthly minimum for a comparable sized meter connection, but no less than \$5.00 per month. The service charge for fire sprinklers is only applicable for service lines separate and distinct from the primary water service line.

**** 2% of monthly minimum for a comparable sized meter connection, but no less than \$10.00 per month. The service charge for fire sprinklers is only applicable for service lines separate and distinct from the primary water service line.

43. The rates and charges proposed by Watco would increase the monthly bill for a 5/8" x 3/4"-meter customer with median water usage of 3,383 gallons from \$32.53 to \$56.61, for an increase

1 of \$24.07 or 74.0 percent. For a 5/8" x 3/4"-meter customer with average water usage of 4,851
2 gallons, the Watco-proposed rates and charges would increase the monthly bill from \$38.40 to
3 \$66.82, for an increase of \$28.42 or 74.0 percent.

4 44. The rates and charges ultimately recommended by Staff would increase the monthly
5 bill for a 5/8" x 3/4"-meter customer with median water usage of 3,383 gallons from \$32.53 to \$43.00,
6 for an increase of \$10.47 or 32.2 percent. For a 5/8" x 3/4"-meter customer with average water usage
7 of 4,851 gallons, these Staff-recommended rates and charges would increase the monthly bill from
8 \$38.40 to \$53.76, for an increase of \$15.35 or 40.0 percent.

9 45. For a customer served by a 2" meter, with average water usage of approximately
10 13,500 gallons, the rates and charges proposed by Watco would increase the monthly bill from
11 \$182.50 to \$317.55, for an increase of \$135.05 or 74.0 percent. The Staff-recommended rates and
12 charges would increase the monthly bill for the same customer to \$342.82, for an increase of \$160.32
13 or 87.8 percent.

14 46. Watco has accepted the Staff-recommended rates and charges as set forth in the
15 Supplemental Staff Report.

16 **Staff Recommendations**

17 47. Staff recommends:

- 18 a. Approval of Staff's recommended rates and charges;
- 19 b. That Watco be ordered to adopt Staff's four-factor allocation methodology for
20 shared expenses, as reflected in Exhibit A;
- 21 c. That Watco be ordered to file with Docket Control, as a compliance item in
22 this docket, within 30 days after the effective date of the Decision in this
23 matter, a tariff schedule of its new rates and charges;
- 24 d. That Watco be ordered to file with the Commission, no later than five years
25 after the effective date of the Decision in this matter, a new rate case
26 application in which its debt coverage will be reviewed;
- 27 e. That Watco be ordered to correct its office hours to reflect Arizona time,
28 because Watco's main office is located in New Mexico and within a different

1 time zone;

2 f. That Watco be ordered to have its owner, president, or another individual
3 overseeing Watco's day-to-day operations make himself or herself available to
4 assist a customer with issues that local Watco personnel are unable to address;

5 g. That Watco be ordered to report information, such as but not limited to plant
6 description, water use, and water loss data, separately for each of its individual
7 systems by Public Water System ("PWS"), as defined by ADEQ, in future
8 Annual Reports and rate filings with the Commission;

9 h. That for the Bourdon Ranch Estates system (PWS No. 09-049), Watco be
10 ordered:

11 i. To continue monitoring the water system closely;

12 ii. To take action to ensure that water loss is less than 10 percent in the
13 future; and

14 iii. If the water loss at any time before the next rate case is greater than 10
15 percent, to prepare and file in this docket either a plan to reduce water
16 loss to less than 10 percent or a report containing a detailed analysis
17 and explanation demonstrating why a water loss reduction to 10 percent
18 or less is not feasible or cost effective;⁵

19 i. That for the Canyon Vista system (PWS No. 09-091), Watco be ordered:

20 i. To file as a compliance item in this docket, within 13 months of the
21 effective date of the Decision in this case, a 12-month Water Use Data
22 Report indicating for the system, for each month during the 12-month
23 period, the gallons pumped (based on records of the well meter), the
24 gallons sold, the number of customers, and the water loss percentage;

25 ii. To coordinate the reading of its well meter and individual customer
26 meters on a monthly basis to ensure that an accurate accounting of the

27
28 ⁵ Staff included a requirement for the report to be docketed, but not for the plan to be docketed. We view this as an inadvertent omission and have corrected it.

monthly water loss in the water system can be determined;

iii. If the water loss reported in the Water Use Data Report is greater than 10 percent, to prepare and file, as a compliance item in this docket, within 13 months after the effective date of the decision in this case, either a water loss reduction report containing a detailed analysis and plan to reduce water loss to less than 10 percent or, if Watco believes it is not cost effective to reduce the water loss to less than 10 percent, a detailed cost benefit analysis to support its opinion; and

iv. Not to allow water loss to be greater than 15 percent;

j. That Watco be ordered to use the depreciation rates listed in Table B of the Engineering portion of the Staff Report filed in this matter;

k. That Watco be required to file with Docket Control, as a compliance item in this docket, within 90 days of the effective date of this Decision, for the Commission's review and consideration, at least three Best Management Practices ("BMPs") in the form of tariffs that conform to the templates created by Staff;⁶ and

l. That Watco be authorized to request cost recovery of actual costs associated with the BMPs implemented in its next general rate application.

48. We find that Staff's recommended rates and charges set forth in Findings of Fact No. 42 are just and reasonable and should be adopted. In addition, we find that Staff's recommendations set forth in Findings of Fact No. 47 are just and reasonable and should be adopted.

CONCLUSIONS OF LAW

1. Watco is a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§ 40-250, 40-251, and 40-367.

2. The Commission has jurisdiction over Watco and the subject matter of the application.

3. Notice of the application in this matter was given in accordance with the law.

⁶ The templates are available on the Commission's website at <http://www.azcc.gov/Divisions/Utilities/forms.asp>.

4. Watco's fair value rate base is (\$71,668).

5. The rates, charges, and conditions of service established herein are just and reasonable and in the public interest.

6. It is just and reasonable and in the public interest to adopt Staff's recommended rates and charges set forth in Findings of Fact No. 42 and to adopt Staff's recommendations set forth in Findings of Fact No. 47.

ORDER

IT IS THEREFORE ORDERED that Watco, Inc. is hereby authorized and directed to file with the Commission's Docket Control, as a compliance item in this docket, on or before February 1, 2013, a revised tariff setting forth the following rates and charges:

MONTHLY MINIMUM CHARGES:

5/8" x 3/4" Meter	\$ 26.00
3/4" Meter	26.00
1" Meter	65.00
1 1/2" Meter	130.00
2" Meter	208.00
3" Meter	416.00
4" Meter	650.00
6" Meter	1,300.00

COMMODITY RATES (Per 1,000 Gallons):

<u>5/8" x 3/4" Meters</u>	
1 to 3,000 Gallons	\$ 4.73
3,001 to 8,000 Gallons	7.33
Over 8,000 Gallons	13.85

All Other Meter Sizes

1 to 8,000 Gallons	\$ 7.33
Over 8,000 Gallons	13.85

Bulk Water	\$13.85
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SERVICE LINE AND METER INSTALLATION CHARGES:

(Refundable pursuant to A.A.C. R14-2-405)

	<u>Service</u>	<u>Meter*</u>	<u>Total</u>
5/8" x 3/4" Meter	\$ 0.00	\$ 0.00	\$ 0.00
3/4" Meter	220.00	100.00	320.00
1" Meter	245.00	125.00	370.00

1 ½" Meter	275.00	270.00	545.00
2" Meter	300.00	450.00	750.00
3" Meter	340.00	640.00	980.00
4" Meter	600.00	1,220.00	1,820.00
6" Meter	1,060.00	2,860.00	3,920.00

* Note: Meter Charge includes meter box or vault.

SERVICE CHARGES:

Establishment	\$25.00
Reconnection (Delinquent)	\$25.00
After Hours Service Charge	\$25.00
Meter Test (If Correct)	\$35.00
Deposit	\$45.00
Deposit Interest (Per Year)	*
Re-Establishment (Within 12 Months)	**
NSF Check	\$30.00
Deferred Payment (Per Month)	1.50%
Meter Re-Read (If Correct)	\$25.00
Late Fee (Per Month)	1.50%

MONTHLY SERVICE CHARGE FOR FIRE SPRINKLERS:

All Meter Sizes ***

* Per Commission Rule A.A.C. R14-2-403(B)

** Number of months off system times the monthly minimum per Commission rule A.A.C. R14-2-403(D)

*** 2% of monthly minimum for a comparable sized meter connection, but no less than \$10.00 per month. The service charge for fire sprinklers is only applicable for service lines separate and distinct from the primary water service line.

IT IS FURTHER ORDERED that the rates and charges set forth above shall be effective for all services rendered by Watco, Inc. on and after February 1, 2013.

IT IS FURTHER ORDERED that Watco, Inc. shall notify its customers of the revised schedule of rates and charges authorized herein by means of an insert in its next regularly scheduled billing, or by separate mailing, in a form acceptable to the Commission's Utilities Division Staff.

IT IS FURTHER ORDERED that Watco, Inc. shall adopt Staff's four-factor allocation methodology, as set forth in Exhibit A, for all shared expenses.

IT IS FURTHER ORDERED that Watco, Inc. shall adopt the depreciation rates, by individual National Association of Regulatory Utility Commissioners category, delineated in Table B of the Engineering Report portion of the Staff Report filed in this matter.

IT IS FURTHER ORDERED that Watco, Inc. shall file with the Commission, no later than

1 five years after the effective date of this Decision, a new general rate case application in which its
2 debt coverage will be reviewed.

3 IT IS FURTHER ORDERED that Watco, Inc. shall correct its office hours to reflect Arizona
4 time (rather than New Mexico time).

5 IT IS FURTHER ORDERED that Watco, Inc. shall make its owner, president, or another
6 individual authorized to oversee day-to-day company operations available to assist any customer with
7 any issue that local company personnel are unable to address.

8 IT IS FURTHER ORDERED that in future Annual Reports and rate filings with the
9 Commission, Watco, Inc. shall report information, such as but not limited to plant description, water
10 use, and water loss data, separately for each of its individual systems by Public Water System as
11 defined by the Arizona Department of Environmental Quality.

12 IT IS FURTHER ORDERED that for the Bourdon Ranch Estates system (PWS No. 09-049),
13 Watco, Inc. shall:

- 14 a. Continue monitoring the water system closely;
- 15 b. Take action to ensure that water loss is less than 10 percent in the future; and
- 16 c. If the water loss at any time before the next rate case is greater than 10 percent,
17 prepare and file in this docket either a plan to reduce water loss to less than 10 percent
18 or a report containing a detailed analysis and explanation demonstrating why a water
19 loss reduction to 10 percent or less is not feasible or cost effective.

20 IT IS FURTHER ORDERED that for the Canyon Vista system (PWS No. 09-091), Watco,
21 Inc. shall:

- 22 a. File as a compliance item in this docket, within 13 months after the effective date of
23 this Decision, a 12-month Water Use Data Report indicating for the system, for each
24 month during the 12-month period, the gallons pumped (based on records of the well
25 meter), the gallons sold, the number of customers, and the water loss percentage;
- 26 b. Coordinate the reading of its well meter and individual customer meters on a monthly
27 basis to ensure that an accurate accounting of the monthly water loss in the water
28 system can be determined;

- 1 c. If the water loss reported in the Water Use Data Report is greater than 10 percent,
 2 prepare and file, as a compliance item in this docket, within 13 months after the
 3 effective date of this Decision, either a water loss reduction report containing a
 4 detailed analysis and plan to reduce water loss to less than 10 percent or, if the
 5 company believes it is not cost effective to reduce the water loss to less than 10
 6 percent, a detailed cost benefit analysis to support the company's opinion; and
 7 d. Not allow water loss to be greater than 15 percent.

8 IT IS FURTHER ORDERED that Watco, Inc. shall file with the Commission's Docket
 9 Control, as a compliance item in this docket, within 90 days after the effective date of this Decision,
 10 for the Commission's review and consideration, at least three Best Management Practices in the form
 11 of tariffs that conform to the templates created by Staff and available on the Commission's website at
 12 <http://www.azcc.gov/Divisions/Utilities/forms.asp>.

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1 IT IS FURTHER ORDERED that Watco, Inc. may request, in its next general rate case, cost
2 recovery of the actual costs associated with the Best Management Practices implemented.

3 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

4 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

5

6

7 CHAIRMAN _____ COMMISSIONER _____

8

9 COMMISSIONER _____ COMMISSIONER _____ COMMISSIONER _____

10

11

12 IN WITNESS WHEREOF, I, JODI JERICH, Executive
13 Director of the Arizona Corporation Commission, have
14 hereunto set my hand and caused the official seal of the
15 Commission to be affixed at the Capitol, in the City of Phoenix,
16 this _____ day of _____ 2013.

17

18

19 JODI JERICH _____
20 EXECUTIVE DIRECTOR

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23 DISSENT _____

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26 DISSENT _____

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1 SERVICE LIST FOR: WATCO, INC.
2 DOCKET NO.: W-20475A-12-0143

3
4 Mark Grapp, President
5 WATCO, INC.
6 P.O. Box 1270
7 Show Low, AZ 85902

8 Janice Alward, Chief Counsel
9 Legal Division
10 ARIZONA CORPORATION COMMISSION
11 1200 West Washington Street
12 Phoenix, AZ 85007

13 Steven M. Olea, Director
14 Utilities Division
15 ARIZONA CORPORATION COMMISSION
16 1200 West Washington Street
17 Phoenix, AZ 85007
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EXHIBIT "A"

DOCKET NO. W-20475A-12-0143

Calculation of Four-Factor Allocation						
	(A)	(B)	(C)	(D)	(E)	(A)
	Direct Labor Hours	Direct Oper Expenses	Number of Customers	Net Plant	Total (Col A+B+C+D)	Allocation % (Col E / 4)
Cedar Grove	0.453145917	0.34150984	0.522099448	0.218479739	1.535234941	0.383808735
Watco	0.382864793	0.55838715	0.395027624	0.762400769	2.098680332	0.524670083
Vernon Valley	0.048862115	0.06189854	0.020718232	0.016661776	0.148140664	0.037035166
A. Petersen	0.115127175	0.03820448	0.062154696	0.002457715	0.217944064	0.054486016
	1.000000000	1.000000000	1.000000000	1.000000000	4.000000000	1.000000000

Direct Labor Hours Worked for Each Company by Employee					
From Data Request BCA 3-3					
Employee Name	Cedar Grove	Watco	Vernon Valley	A. Petersen	Total
Bryan Mullins	677.00	572.00	73.00	172.00	1,494.00
Mark Grapp	-	-	-	-	-
Thomas Grapp	-	-	-	-	-
	677.00	572.00	73.00	172.00	1,494.00

Direct Labor Hrs. Allocation %: 0.453145917 0.38286479 0.048862115 0.115127175 1.00

Number of Customers by Company					
Source: From 2011 Annual Reports, Watco Rate Application					
	Cedar Grove	Watco	Vernon Valley	A. Petersen	Total
No. of Customer:	378.00	286.00	15.00	45.00	724.00

No. of Customers Allocation %: 0.522099448 0.39502762 0.020718232 0.062154696 1.00

Net Plant by Company					
Source: CG, 2011 A. rpt, Watco, rate app (per Co.); VV 2011 A. rpt; AP, 2011 A. rpt;					
	Cedar Grove	Watco	Vernon Valley	A. Petersen	Total
Net Plant	568,131	1,982,534	43,327	6,391	2,600,383

Net Plant Allocation %: 0.218479739 0.76240077 0.016661776 0.002457715 1.00

Direct Operating Expenses (Excluding Salaries & Wages)						
Source: CG, 2011 A.rpt; Watco, rate app (per Co); SB, 2011 A. rpt; AP, 2011 A. rpt						
	Cedar Grove	Watco	Vernon Valley	A. Petersen	Total	
Purchased Pwr	\$ 17,650.00	\$ 10,789	\$ 959.00	\$ 2,440.00	\$ 31,838.00	
Repairs & Maintenance	\$ 1,406.00	\$ 4,307.00	\$ 3,236.00	\$ 456.00	\$ 9,405.00	
Outside Services	\$ 11,866.00	\$ 9,315.00	\$ 3,192.00	\$ 1,515.00	\$ 25,888.00	
Water Testing	\$ 2,796.00	\$ 1,288.00	\$ 830.00	\$ 845.00	\$ 5,759.00	
Depreciation Expense	\$ 16,339.00	\$ 58,849.00	\$ 1,391.00	\$ 193.00	\$ 76,772.00	
Property Taxes	\$ 4,310.00	\$ 4,345.00	\$ 246.00	\$ 633.00	\$ 9,534.00	
	\$ 54,367.00	\$ 88,893.00	\$ 9,854.00	\$ 6,082.00	\$ 159,196.00	

Direct Oper Exp Allocation %: 0.341509837 0.55838715 0.06189854 0.038204477 1.00

DECISION NO. _____